

Message Text

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PAGE 01 LONDON 07428 01 OF 02 111542Z
ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 CTME-00 JUSE-00
/128 W

-----071345 111612Z /43

R 111309Z MAY 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6021
INFO AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY OSLO
AMEMBASSY PARIS
AMCONSUL EDINBURGH

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 07428

USEEC
USOEC

E.O. 11652: N/A
TAGS: ENRG, UK
SUBJECT: SIXTH OIL LICENSING ROUND TO FURTHER STRENGTHEN
BNOC

REF: (A) LONDON 7239, (B) LONDON 6066

BEGIN UNCLASSIFIED

1. THE CONSULTATIVE DOCUMENT PROPOSING CONDITIONS FOR
THE SIXTH ROUND OF OFFSHORE OIL EXPLORATION LICENSES HAS
NOW SURFACED, AND CONSULTATIONS BETWEEN THE GOVERNMENT
AND PRIVATE COMPANIES ARE UNDER WAY. THIS PROCESS
SHOULD BE COMPLETED BY THE END OF JUNE. AS ANTICIPATED
IN REFTEL (A), THE PROPOSALS FURTHER STRENGTHEN THE
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PAGE 02 LONDON 07428 01 OF 02 111542Z

POSITION OF THE STATE-OWNED BRITISH NATIONAL OIL
CORPORATION (BNOC).

2. WHEREAS EARLY LICENSES WERE AWARDED LARGELY ON THE
BASIS OF COMPANIES' FINANCIAL AND TECHNICAL COMPETENCE,
THE SIXTH ROUND PROPOSALS INCORPORATE MOST ELEMENTS
WHICH EMERGED FROM THE FIFTH ROUND AND GO FAR BEYOND.

AS IN THE FIFTH ROUND, COMPANIES MUST AGAIN GIVE BNOC AT LEAST A 51 PERCENT STAKE IN ALL BLOCKS, AGREE TO GIVE UNION OFFICIALS ACCESS TO INSTALLATIONS, AND OFFER BRITISH INDUSTRY A "FULL AND FAIR OPPORTUNITY TO COMPETE FOR ORDERS".

3. IN THIS ROUND, FOR THE FIRST TIME, A COMPANY SUCCESSFULLY FINDING OIL WOULD FACE A LATER JUDGMENT ON WHETHER IT COULD BE THE OPERATOR DURING THE DEVELOPMENT PHASE. ALSO, BNOC WILL BE AWARDED OPERATORSHIP OF SIX OF THE FORTY BLOCKS FROM THE START. (THIS FOLLOWS THE NON-COMPETITIVE AWARD OF NINE BLOCKS TO BNOC BETWEEN ROUNDS, PER REF (B)). IN THE FIFTH ROUND, 71 BLOCKS WERE OFFERED, 44 OF WHICH WERE AWARDED; OF THESE, SIX EVENTUALLY WENT TO BNOC.

4. APPLICANTS FOR LICENSES, ACCORDING TO ENERGY SECRETARY BENN'S PRESS BRIEFING STATEMENT OF MAY 10, "WILL BE GIVEN THE OPPORTUNITY...OF OFFERING TO CARRY (BNOC) FOR ALL OR PART OF THEIR COSTS DURING THE EXPLORATION AND APPRAISAL PHASE." THERE WILL ALSO BE PROVISIONS "ENABLING APPLICANTS TO OFFER BNOC AN EQUITY SHARE IN LICENSES GREATER THAN THE STANDARD 51 PERCENT" AND "TO OFFER BNOC THE OPTION TO BUY OIL FROM ITS PARTNERS OR TO SELL OIL TO THEM OR BOTH." LEST THE SOMEWHAT TONGUE-IN-CHEEK LANGUAGE MISLEAD PROSPECTIVE LICENSE APPLICANTS LIMITED OFFICIAL USE

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PAGE 03 LONDON 07428 01 OF 02 111542Z

ABOUT THEIR "OPPORTUNITIES" TO OFFER THESE BENEFITS TO BNOC, THE STATEMENT FOLLOWED WITH, "THE COMPANIES' RESPONSE TO THESE OFFERS WILL BE TAKEN INTO ACCOUNT IN ASSESSING APPLICATIONS." ALSO TO BE CONSIDERED ARE THE APPLICANTS' RECORDS IN PROVIDING TRAINING FOR WORK ON

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PAGE 01 LONDON 07428 02 OF 02 111535Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 07428

OFFSHORE INSTALLATIONS. FINALLY, EVEN WHERE BNOC IS NOT THE OPERATOR, BNOC IS TO HAVE THE RIGHT TO ASSUME JOINT RESPONSIBILITY FOR ALL PUBLIC PRONOUNCEMENTS AND STATEMENTS CONCERNING THE LICENSE ACTIVITIES.

5. BENN SAID, "I AM DETERMINED TO USE THIS ROUND TO STRENGTHEN BRITISH CONTROL OVER OUR OWN OFFSHORE OIL RESOURCES. THE NEW PROPOSALS SET OUT IN THE CONSULTATIVE DOCUMENT ARE DESIGNED TO OBTAIN THE FULLEST POSSIBLE BENEFITS FOR BRITAIN WHILST PROVIDING OPPORTUNITIES FOR THE COMPANIES TO PLAY THEIR IMPORTANT ROLE AS PARTNERS IN THIS VENTURE."
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PAGE 02 LONDON 07428 02 OF 02 111535Z

6. EARLY PRESS REPORTS SAY THE PROPOSALS "HAVE ANGERED MANY IN THE OIL INDUSTRY" AND THAT "THERE WAS AN IMMEDIATE WARNING THAT A NUMBER OF COMPANIES WOULD REFUSE TO BID FOR THE LATER OFFERINGS". WE SEE THESE STATEMENTS AND THE SEVERITY OF THE GOVERNMENT'S PROPOSED CONDITIONS ABOVE AS OPENING SHOTS IN THE PUBLIC AND PRIVATE NEGOTIATING THAT WILL NOW ENSUE. OUR ANALYSIS IN REFTTEL (A) REMAINS VALID, PENDING THE EVOLUTION OF THE CONSULTATIONS.

BREWSTER

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